

SEBC Retiree Healthcare Benefits Advisory Subcommittee (RHBAS)

July 20, 2023

Options to Reduce OPEB Liability

Reviewed at May 19 and June 5, 2023 RHBAS Meetings

• Funding Options

Option	Option Description	Other Considerations	Approx. 2025 OPEB Liability Reduction ^{1,2}	Approx. 2052 OPEB Liability Reduction ^{1,2}	2052 Approx. Funded Ratio ^{1,2}
Baseline	State Funding Rate of Payroll at 0.36%			▪ \$0	▪ 17.8%
1% additional funding	Assumes 1% of prior fiscal year state budget (\$47.7M based on \$4.7B budget for FY22); projected to grow at 3.6%		▪ \$0.4B	▪ \$10.4B	▪ 59.8% (42%)
2% additional funding (not previously modeled)	Assumes 2% of prior fiscal year state budget (\$95.4M based on \$4.7B budget for FY22); projected to grow at 3.6%		▪ \$2.8B	▪ \$10.5B	▪ 93.2% (75.4%)
3% additional funding (not previously modeled)	Assumes 3% of prior fiscal year state budget (\$143.1M based on \$4.7B budget for FY22); projected to grow at 3.6%		▪ \$3.6B	▪ \$10.5B	▪ 101.7% (83.9%)

¹ Includes 0.36% payroll contribution

² Estimated; modeling provided by Cheiron

Options to Reduce OPEB Liability

Reviewed at June 5, 2023
RHBAS Meeting

• Eligibility Changes

Option	Option Description	Additional Assumption Details	Approx. 2025 OPEB Liability Reduction ^{1,2}	Approx. 2052 OPEB Liability Reduction ^{1,2}	2052 Approx. Funded Ratio ^{1,2}
Baseline	State Funding Rate of Payroll at 0.36%		▪ \$0	▪ \$0	▪ 17.8%
Reduce Spousal State Share Subsidy to 50%	Applies only to future non-Medicare and Medicare retirees	<ul style="list-style-type: none"> ▪ Model A: Hire date after 1/1/2015 ▪ Model B: Hire date after 1/1/2025 ▪ Model C: Retirement date after 1/1/2025 	Model A: \$0.1B Model B: \$0.0B Model C: \$1.0B	Model A: \$1.8B Model B: \$1.1B Model C: \$2.7B	Model A: 18.9% (1.1%) Model B: 18.5% (0.7%) Model C: 19.5% (1.7%)
Increase the Graduated State Share based on Years of Service	Adjust State Share eligibility schedule to 20 years = 50%, 25 years = 75% and 30 years = 100%	<ul style="list-style-type: none"> ▪ Model A: Hire date after 1/1/2015 ▪ Model B: Hire date after 1/1/2025 ▪ Model C: Retirement date after 1/1/2025 	Model A: \$0.2B Model B: \$0.0B Model C: \$1.3B	Model A: \$3.8B Model B: \$3.0B Model C: \$4.6B	Model A: 20.2% (2.4%) Model B: 19.7% (1.9%) Model C: 20.8% (3.0%)
Eliminate Future Vested Retirees from eligibility for healthcare	Anyone who terms employment with State and is entitled to a future pension benefit will not have access to health coverage	<ul style="list-style-type: none"> ▪ Model A: Hire date after 1/1/2015 ▪ Model B: Hire date after 1/1/2025 ▪ Model C: Retirement date after 1/1/2025 	Model A: \$0.1B Model B: \$0.0B Model C: \$0.1B	Model A: \$1.6B Model B: \$1.2B Model C: \$1.5B	Model A: 18.7% (0.9%) Model B: 18.5% (0.7%) Model C: 18.7% (0.9%)
Increase minimum required age	Future retirees only State Police to age 55, All Other employees to age 60	<ul style="list-style-type: none"> ▪ Model A: Hire date after 1/1/2015 ▪ Model B: Hire date after 1/1/2025 ▪ Model C: Retirement date after 1/1/2025 	Model A: \$0.1B Model B: \$0.0B Model C: \$1.2B	Model A: \$2.5B Model B: \$2.3B Model C: \$2.5B	Model A: 19.3% (1.5%) Model B: 19.2% (1.4%) Model C: 19.3% (1.5%)

¹ Includes 0.36% payroll contribution

² Estimated; modeling provided by Cheiron

Options to Reduce OPEB Liability

Reviewed at June 5, 2023
RHBAS Meeting

• Benefit Design Options

Option	Option Description	Additional Assumption Details	Approx. 2025 OPEB Liability Reduction ^{1,2}	Approx. 2025 OPEB Liability Reduction ^{1,2}	2025 Approx. Funded Ratio ^{1,2}
Baseline	State Funding Rate of Payroll at 0.36%			\$0	17.8%
Move to HRA/Individual Marketplace, with 2% annual indexing of HRA	\$5,100 ³ annual HRA for each eligible member and 2% annual indexing ³	<ul style="list-style-type: none"> Model A: Hire date on/after 1/1/2015 Model B: Hire date on/after 1/1/2025 Model C: Retirement date on/after 1/1/2025 	Model A: \$0.4B Model B: \$0.0B Model C: \$2.0B	Model A: \$10.9B Model B: \$10.0B Model C: \$13.1B	Model A: 27.2% (9.4%) Model B: 26.0% (8.2%) Model C: 30.4% (12.6%)
Move to HRA/Individual Marketplace, with 4% annual indexing of HRA	\$5,100 ³ annual HRA for each eligible member and 4% annual indexing ³	<ul style="list-style-type: none"> Model A: Hire date on/after 1/1/2015 Model B: Hire date on/after 1/1/2025 Model C: Retirement date on/after 1/1/2025 	Model A: (\$0.2B) Model B: \$0.0B Model C: (\$0.1B)	Model A: (\$0.6B) Model B: \$0.0B Model C: (\$0.6B)	Model A: 17.4% (0.4%) Model B: 17.8% (0.0%) Model C: 17.4% (0.4%)

¹ Includes 0.36% payroll contribution

² Estimated; modeling provided by Cheiron

³ Previously published as \$4,900 on June 5, 2023

Options to Reduce OPEB Liability

Reviewed at June 26, 2023
RHBAS Meeting

• Benefit Design Options

Option	Option Description	Additional Assumption Details	Approx. 2025 OPEB Liability Reduction ^{1,2}	Approx. 2052 OPEB Liability Reduction ^{1,2}	2052 Approx. Funded Ratio ^{1,2}
Baseline	State Funding Rate of Payroll at 0.36%			▪ \$0	▪ 17.8%
Offer a Medigap Supplement Plan similar to existing Special Medicfill Plan with 10% pensioner share ³	Reduce State Share from 95% to 90% and increase Pensioner Share from 5% to 10% for retirees with 20+ years of State Service at time of retirement	<ul style="list-style-type: none"> ▪ Model A: Hire date on/after 1/1/2015 ▪ Model B: Hire date on/after 1/1/2025 ▪ Model C: Retirement date on/after 1/1/2025 	Model A: \$0.0B Model B: \$0.0B Model C: \$0.0B	Model A: \$1.1B Model B: \$1.0B Model C: \$1.1B	Model A: 18.5%(0.7%) Model B: 18.4%(0.6%) Model C: 18.5%(0.7%)
Offer a Medigap Supplement Plan similar to existing Special Medicfill Plan with 15% pensioner share ³	Reduce State Share from 95% to 85% and increase Pensioner Share from 5% to 15% for retirees with 20+ years of State Service at time of retirement	<ul style="list-style-type: none"> ▪ Model A: Hire date on/after 1/1/2015 ▪ Model B: Hire date on/after 1/1/2025 ▪ Model C: Retirement date on/after 1/1/2025 	Model A: \$0.0B Model B: \$0.0B Model C: \$0.4B	Model A: \$2.1B Model B: \$2.1B Model C: \$2.6B	Model A: 19.1%(1.3%) Model B: 19.1%(1.3%) Model C: 19.4%(1.6%)

¹ Includes 0.36% payroll contribution

² Estimated; modeling provided by Cheiron

³ Modeling and actuarial assumptions use the existing Special Medicfill Medicare Supplement plan design.

Options to Reduce OPEB Liability

Reviewed at June 26, 2023
RHBAS Meeting

• Benefit Design Options

Option	Option Description	Additional Assumption Details	Approx. 2025 OPEB Liability Reduction ^{1,2}	Approx. 2052 OPEB Liability Reduction ^{1,2}	2052 Approx. Funded Ratio ^{1,2}
Baseline	State Funding Rate of Payroll at 0.36%			▪ \$0	▪ 17.8%
Offer a Medicare Advantage Plan similar to the formerly proposed Highmark BCBS Delaware Freedom Blue PPO	State Share remains at 95% Pensioner Share at 5% for retirees with 20+ years of State Service at time of retirement	<ul style="list-style-type: none"> ▪ Model A: Hire date on/after 1/1/2015 ▪ Model B: Hire date on/after 1/1/2025 ▪ Model C: Retirement date on/after 1/1/2025 	Model A: \$0.2B Model B: \$0.0B Model C: \$2.0B	Model A: \$7.4B Model B: \$6.8B Model C: \$9.5B	Model A: 23.2%(5.4%) Model B: 22.7%(4.9%) Model C: 25.5%(7.7%)

¹ Includes 0.36% payroll contribution

² Estimated; modeling provided by Cheiron

Options to Reduce OPEB Liability

Reviewed at June 26, 2023
RHBAS Meeting

• Other Funding Options

Option	Option Description	Other Considerations	Approx. 2025 OPEB Liability Reduction ^{1,2}	Approx. 2052 OPEB Liability Reduction ^{1,2}	2052 Approx. Funded Ratio ^{1,2}
Baseline	State Funding Rate of Payroll at 0.36%			▪ \$0	▪ 17.8%
Increase State funding rate of payroll to OPEB from 0.36% to 1%			▪ \$0.1B	▪ \$1.1B	▪ 25.5% (7.7%)

¹ Includes 0.36% payroll contribution

² Estimated; modeling provided by Cheiron

Options to Reduce OPEB Liability

Reviewed at June 26, 2023
RHBAS Meeting

• Eligibility and Benefit Design Option Combination

Option	Option Description	Additional Assumption Details	Approx. 2025 OPEB Liability Reduction ^{1,2}	Approx. 2052 OPEB Liability Reduction ^{1,2}	2052 Approx. Funded Ratio ^{1,2}
Baseline	State Funding Rate of Payroll at 0.36%			▪ \$0	▪ 17.8%
Offer a choice between a Medigap Supplement Plan similar to existing Special Medicfill Plan ³ or a Medicare Advantage Plan similar to the formerly proposed Highmark BCBS Delaware Freedom Blue PPO with 15% pensioner share for MS	For the Medigap Supplement Plan, reduce State Share from 95% to 85% and increase pensioner share from 5% to 15% for retirees with 20+ years of State service at the time of retirement. For the Medicare Advantage Plan, State Share remains at 95% and pensioner share at 5% for retirees with 20+ years of State service at the time of retirement.	<ul style="list-style-type: none"> ▪ Model C: Retirement date on/after 1/1/2025 ▪ That 90% of retirees enroll in Medigap plan paying 15% of Medigap plan and 10% of retirees enroll in MA paying 5% of the MA plan: 	▪ Model C: \$0.6B	▪ Model C: \$3.6B	▪ Model C: 20.0% (2.2%)

¹ Includes 0.36% payroll contribution

² Estimated; modeling provided by Cheiron

³ Modeling and actuarial assumptions use the existing Special Medicfill Medicare Supplement plan design.

Options to Reduce OPEB Liability

Reviewed at June 26, 2023
RHBAS Meeting

• Eligibility and Benefit Design Option

Option	Option Description	Other Considerations	Approx. 2025 OPEB Liability Reduction ^{1,2}	Approx. 2052 OPEB Liability Reduction ^{1,2}	2052 Approx. Funded Ratio ^{1,2}
Baseline	State Funding Rate of Payroll at 0.36%			▪ \$0	▪ 17.8%
Offer a choice between a Medigap Supplement Plan similar to existing Special Medicfill Plan ³ or a Medicare Advantage Plan (MA) similar to the formerly proposed Highmark BCBS Delaware Freedom Blue PPO.	<ul style="list-style-type: none"> All current retirees after 7/1/2012 and who are 65 years old/Medicare eligible – pay 5% and state pays 95%. Retire on or after 1/1/25 and at least 60 years old but not yet 65 – when they become Medicare eligible, pay current 5% plus 25% of state share if they choose the Medigap plan. Retire on or after 1/1/25 and at least 55 but not yet age 60 – when they become Medicare eligible, pay current 5% plus 50% of state share if they choose a Medigap plan. Retire on or after 1/1/25 and at least 50 but not yet age 55 - when they become Medicare eligible, pay current 5% plus 75% of state share if they choose a Medigap plan. Retire on or after 1/1/25 and less than 50 years of age – when they become Medicare eligible, pay current 5% plus 95% of state share if they chose a Medigap plan. <p>NOTE: MA available to all retirees with 5% pensioner share.</p>	<ul style="list-style-type: none"> Model C: Retirement date after 1/1/2025 	<ul style="list-style-type: none"> Model C: \$1.2B 	<ul style="list-style-type: none"> Model C: \$6.9B 	<ul style="list-style-type: none"> Model C: 22.8% (5%)

¹ Includes 0.36% payroll contribution

² Estimated; modeling provided by Cheiron

³ Modeling and actuarial assumptions use the existing Special Medicfill Medicare Supplement plan design.

Options to Reduce OPEB Liability

Reviewed at June 26, 2023
RHBAS Meeting

• Funding, Eligibility and Benefit Design Option Combination (Example 1)

Option	Option Description	Additional Assumption Details	Approx. 2025 OPEB Liability Reduction ^{1,2}	Approx. 2052 OPEB Liability Reduction ^{1,2}	2052 Approx. Funded Ratio ^{1,2}
Baseline	State Funding Rate of Payroll at 0.36%			▪ \$0	▪ 17.8%
Funding: 1% Additional Funding	Assumes 1% of prior fiscal year state budget (\$47.7M based on \$4.7B budget for FY22); projected to grow at 3.6%	▪ Model C: Retirement date on/after 1/1/2025	▪ Model C: \$1.6B	▪ Model C: \$11.9B	▪ Model C: 64.1% (46.3%)
Eligibility: 50% spousal share	Reduce Spousal State Share Subsidy to 50% for Spouses when Retirement date on/after 1/1/2025	▪ Reduce State Share from 95% to 90% and increase Pensioner Share from 5% to 10% for retirees with 20+ years of State Service at time of retirement			
Plan Design: Medicare Supplement	Offer a Medigap Supplement Plan similar to existing Special Medicfill Plan				

¹ Includes 0.36% payroll contribution

² Estimated; modeling provided by Cheiron

Options to Reduce OPEB Liability

Reviewed at July 10, 2023
RHBAS Meeting

• Other Funding Options

Option	Option Description	Additional Assumption Details	Approx. 2025 OPEB Liability Reduction ^{1,2}	Approx. 2052 OPEB Liability Reduction ^{1,2}	2052 Approx. Funded Ratio ^{1,2}
No Baseline and no 1% carveout	Does not include 1% carveout or 0.36% of payroll				
Increase State funding rate of payroll to OPEB from 0.36% to 10% gradually over 10 years.	OPEB OEC Rate: FY24 = 0.36% (\$281.5M) FY25 = 0.5% (\$322.1M) FY26 = 2.0% (\$372.5M) FY27 = 3.0% (\$423.4M) FY28 = 4.0% (\$476.4M) FY29 = 5.0% (\$531.5M) FY30 = 6.0% (\$590.1M) FY31 = 7.0% (\$651.6M) FY32 = 8.0% (\$715.6M) FY33 = 9.0% (\$783.4M) FY34 = 10.0% (\$849.6M) FY35 = 10.0% (\$883.4M)		▪ \$3.6B	▪ \$10.6B	▪ 131.6%

¹ Includes 0.36% payroll contribution

² Estimated; modeling provided by Cheiron

Options to Reduce OPEB Liability

• Funding, Eligibility and Benefit Design Option Combination (Example 2)

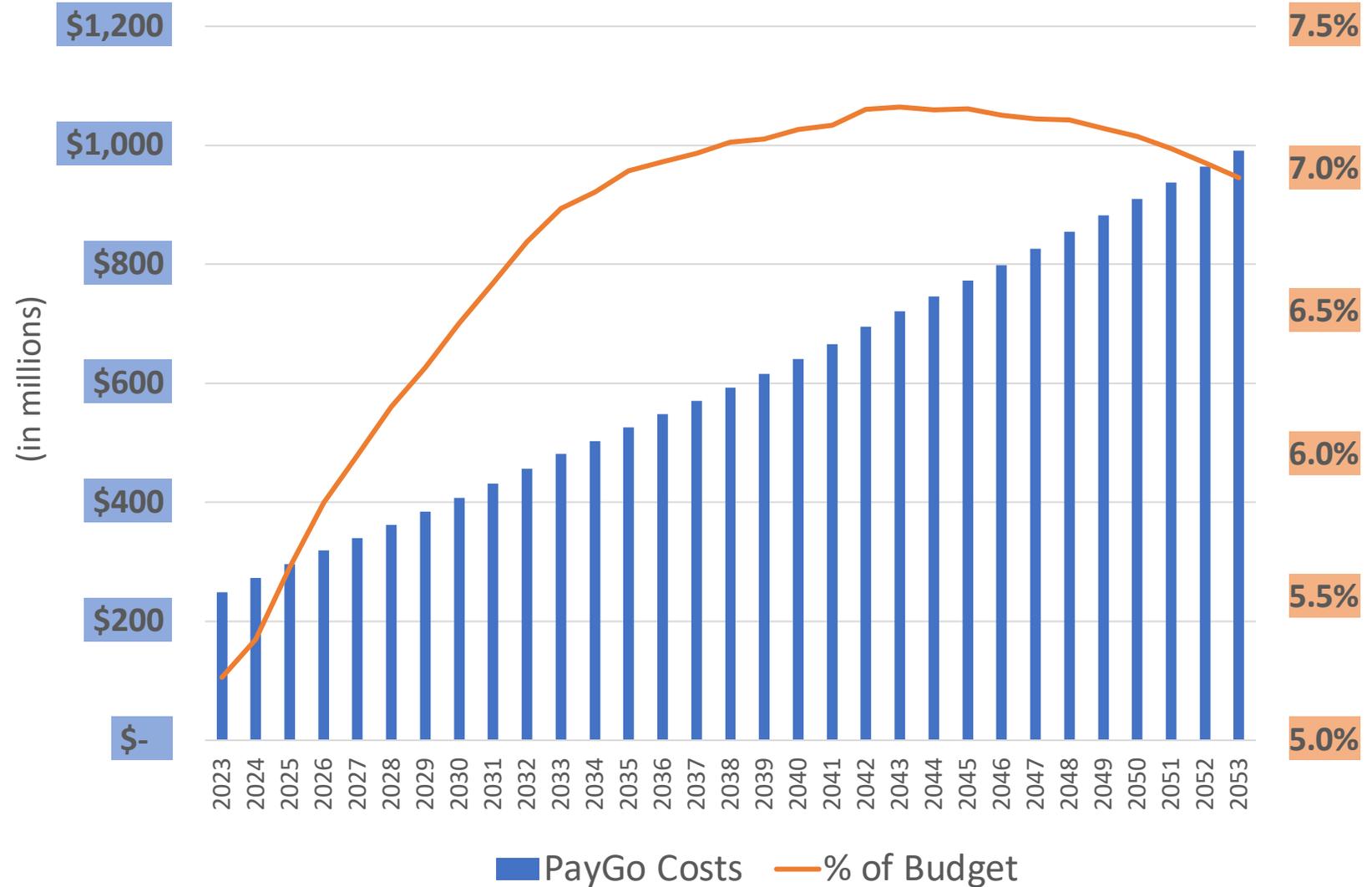
Option	Option Description	Additional Assumption Details	Approx. 2025 OPEB Liability Reduction ^{1,2}	Approx. 2052 OPEB Liability Reduction ^{1,2}	2052 Approx. Funded Ratio ^{1,2}
Funding:	Assumes 1% of prior fiscal year state budget (\$47.7M based on \$4.7B budget for FY22); projected to grow at 3.6% AND Increase State funding rate of payroll to OPEB from 0.36% to 0.5% beginning July 1, 2024 and an additional 0.5% each fiscal year thereafter until reaching a 10% funding level or ADC.	<ul style="list-style-type: none"> Model B: Hire date after 1/1/25 	<ul style="list-style-type: none"> Model B: \$2.2B 	<ul style="list-style-type: none"> Model B: \$14.7B 	<ul style="list-style-type: none"> Model B: 80.8%
Eligibility:	Reduce Spousal State Share Subsidy to 50% for Spouses for new hires on/after 1/1/25 AND Eliminate vested retirees from eligibility for healthcare for new hires on/after 1/1/25.				NOTE: <ul style="list-style-type: none"> Reach ADC in 2041 When ADC is reached, paygo contributions stop
Plan Design:	Reduce State Share from 95% to 85% and increase Pensioner share from 5% to 15% for retirees with 20+ years of service for new hires on/after 1/1/2025.				

¹ Includes 0.36% payroll contribution

² Estimated; modeling provided by Cheiron

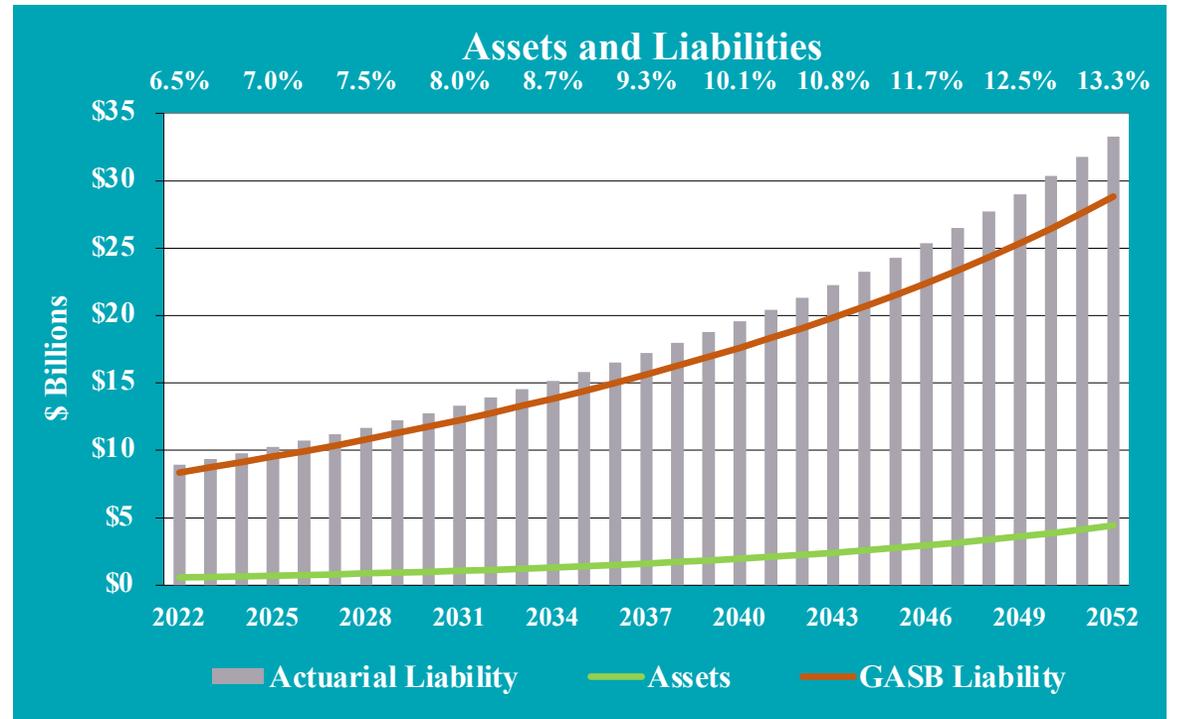
Without design or eligibility changes for future retirees, budgetary “pay-go” costs for retiree healthcare will consume an increasing share of the budget and squeeze out other priorities.

Projected Net Cost for Retiree Healthcare Benefits (PayGo) and Percent of Budget

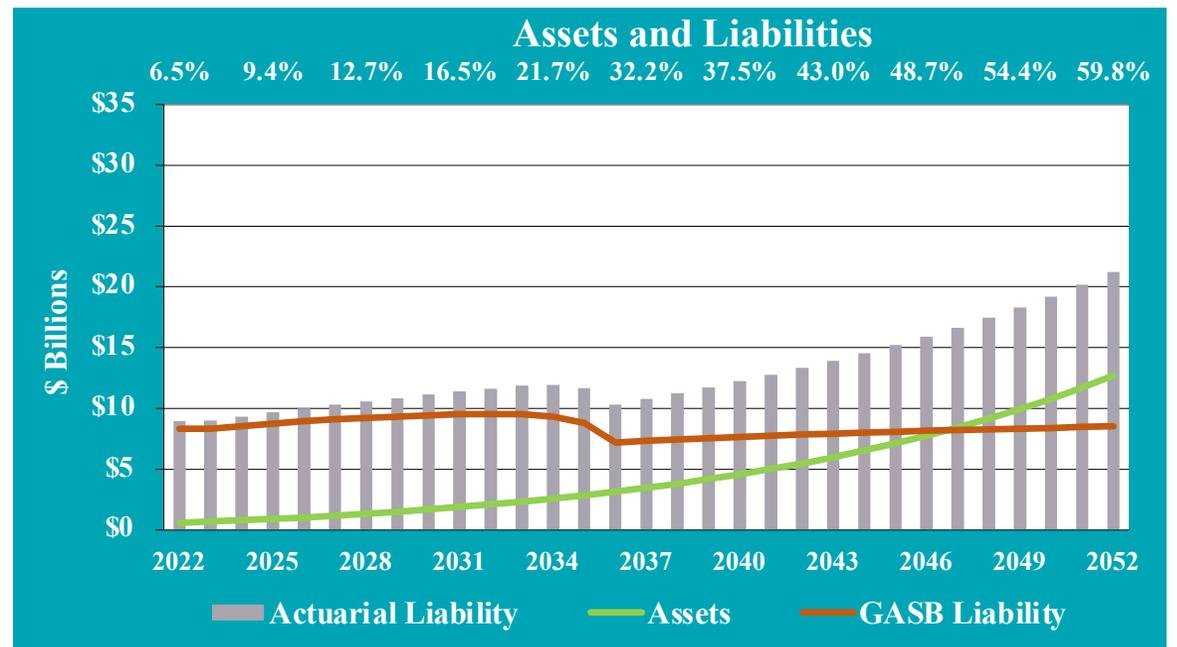


Funding for the Trust Fund (if adhered to) increases the funded ratio over an extended period of time - at a cost of consuming an even higher percentage of the budget. But without design or eligibility changes, the net liability does not materially change and remains much higher than the State's other liabilities combined.

No additional Trust Fund Contributions



Trust Fund Contributions of an additional 1% of budget and 0.36% of payroll (exacerbates budgetary challenge of prior slide)



RHBAS Work Plan for Remaining Meetings

- August 10 – 1 to 3pm - Recommendation vote
- August 24 – 10am to noon - Draft report presented/additional public comment time
- September - TBD - Report discussion
- September - TBD - Approve report

***This schedule is an outline and is subject to change**

Appendix

Other Employment Costs

Contributions paid based on the employee's pay assuming \$50,000 annual salary

Type of Contribution	FY23 Employer Rate	State of Delaware Pays	Employee Pays
Pension Contribution	11.15%	\$5,575	\$1,320 or \$2,200
Disability Insurance Program	0.90%	\$450	\$0
Post Retirement Increase	1.00%	\$500	\$0
OPEB (Prefund Health)	0.36%	\$180	\$0
Retiree Health (PayGo)	9.21%	\$4,605	Based on elections
Medicare, FICA, WC, UI	9.31%	\$4,655	\$3,732
Total OEC's	31.93%	\$15,965	\$5,052 or \$5,932

Options to Reduce OPEB Liability

Illustrative rate sheet for
Medigap plan based on age at
retirement – Slide 9

Type of Coverage	Age at Retirement on or after January 1, 2025	Total Cost	State Share	Pensioner Share
Individual Medigap Supplement ²	Age 65+ ¹ (Retiree pays 5% cost share)	\$459.38	\$436.42	\$22.96
Individual Medigap Supplement ²	Age 60-up to 65 (Retiree pays 25% state share + 5% cost share)	\$459.38	\$327.32	\$132.06
Individual Medigap Supplement ²	Age 55-up to 60 (Retiree pays 50% state share + 5% cost share)	\$459.38	\$218.21	\$241.17
Individual Medigap Supplement ²	Age 50-up to 55 (Retiree pays 75% state share + 5% cost share)	\$459.38	\$109.11	\$350.27
Individual Medigap Supplement ²	Less than age 50 (Retiree pays 100% premium)	\$459.38	\$0.00	\$459.38

¹ Applies to current retirees after 7/1/2012

² Modeling and actuarial assumptions use the existing Special Medicfill Medicare Supplement plan design